Supreme Court, U.S.
FILED
AUG 18 1994
OFFICE OF THE CLERK

No. 93-2035

In the Supreme Court
OF THE
United States

OCTOBER TERM 1993

NINTENDO OF AMERICA, INC.,
Petitioner,

v.

LEWIS GALOOB TOYS, INC.,
Respondent.

Petition For A Writ Of Certiorari
To The United States Court Of Appeals
For The Ninth Circuit

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

JEROME B. FALK JR.
MARTIN R. GLICK*
ANNETTE L. HURST
HOWARD, RICE, NEMEROVSKI, CANADY,
ROBERTSON, FALK & RABKIN
A Professional Corporation
Three Embarcadero Center, 7th Floor
San Francisco, California 94111
Telephone: 415/434-1600
Attorneys for Respondent
Lewis Galoob Toys, Inc.

*Counsel of Record

BEST AVAILABLE COPY

QUESTIONS PRESENTED

Petitioner Nintendo claimed copyright infringement by, and obtained a preliminary injunction against, Respondent Lewis Galoob Toys, Inc. ("Galoob").[1] Nintendo posted a $15 million injunction bond. After a trial, the United States District Court denied a permanent injunction, finding no copyright infringement. The Ninth Circuit Court of Appeal's affirmed and that decision is now final. Thereafter, the District Court determined that Galoob was injured by the preliminary injunction in an amount exceeding $15 million and that it was entitled to execute on the security bond in the full amount. The Ninth Circuit affirmed. The questions presented are:

1. Did the Ninth Circuit apply an appropriate standard in holding that under Rule 65(c) of the Federal Rules of Civil Procedure, there is a rebuttable presumption in favor of execution on a preliminary injunction bond that can be rebutted by showing compelling equitable reasons against enforcement?

2. Did the Ninth Circuit fail to consider the equitable reasons asserted by Nintendo as a defense to enforcement?

3. Did the District Court and the Ninth Circuit abuse their discretion in determining that Nintendo had not demonstrated equitable circumstances sufficient to rebut the presumption in favor of enforcement?

---

[1]All parties who appeared below are listed in the above caption. Pursuant to Supreme Court Rule 29.1, Respondent represents that it has no parent company. Respondent owns a one-third interest in Galoob Toys Canada, Inc., an Ontario corporation, and has no other affiliates or subsidiaries that are not wholly-owned.

TABLE OF CONTENTS

	Page
QUESTIONS PRESENTED	i
STATEMENT OF THE CASE	1
A. Statement Of Facts.	4
B. Summary Of Proceedings Below.	6
REASONS FOR DENYING THE WRIT	10
A. The Rebuttable Presumption Standard Employed By The Ninth Circuit Is Supported By The Text, Legislative History And Policy Of Rule 65(c).	12
B. The Ninth Circuit Did Not Limit Itself To Consideration Of Galoob's "Bad Faith"; Rather, It Expressly Considered The Equitable Factors Urged Upon It By Nintendo.	16
C. Nintendo's Argument That Galoob Is Equitably Barred From Enforcing The Bond Because It Did Not Seek Reconsideration Of The Preliminary Injunction Improperly Seeks Review Of The Lower Courts' Exercise Of Discretion And In No Event Raises An Issue Worthy Of Review By This Court.	19
CONCLUSION	25

TABLE OF AUTHORITIES

Page

Cases

Alabama ex rel. Siegelman v. United States EPA, 925 F.2d 385 (11th Cir. 1991) 13

Blumenthal v. Merrill Lynch, Pierce, Fenner & Smith, Inc., 910 F.2d 1049 (2d Cir. 1990) 24

Buddy Systems, Inc. v. Exer-Genie, 545 F.2d 1164 (9th Cir. 1976), *cert. denied*, 431 U.S. 903 (1977) 10

Christian Science Reading Room Jointly Maintained v. City & County of San Francisco, 784 F.2d 1010, *modified on other grounds*, 792 F.2d 124 (9th Cir. 1986), *cert. denied*, 479 U.S. 1066 (1987) 22

Coyne-Delany Co. v. Capital Development Board, 717 F.2d 385 (7th Cir. 1983) 3, 11, 12, 21

Graver Tank & Manufacturing Co. v. Linde Air Products Co., 336 U.S. 271 (1949), *adhered to in part, rev'd in part on other grounds*, 339 U.S. 605 (1950) 20

H&R Block, Inc. v. McCaslin, 541 F.2d 1098 (5th Cir. 1976), *cert. denied*, 430 U.S. 946 (1977)) 24

Harrison Construction Co. v. Ohio Turnpike Commission, 316 F.2d 174 (6th Cir. 1963) 6

Page

International Brotherhood of Electrical Workers v. Foust, 442 U.S. 42 (1979) 20

Lewis Galoob Toys, Inc. v. Nintendo of America, Inc., 964 F.2d 965 (9th Cir. 1992), *cert. denied*, 123 L. Ed. 2d 149 (1993) 4, 5, 25

Lewis Galoob Toys, Inc. v. Nintendo of America, Inc., 16 F.3d 1032 (9th Cir. 1994) 3, 12, 13, 18, 24

Lindquist v. Idaho State of Board of Corrections, 776 F.2d 851 (9th Cir. 1985) 19

McClatchy Newspapers v. Central Valley Typographical Union No. 46, 686 F.2d 731 (9th Cir.), *cert. denied*, 459 U.S. 1071 (1982) 22

National Kidney Patients Ass'n v. Sullivan, 958 F.2d 1127 (D.C. Cir. 1992), *cert. denied*, 122 L. Ed. 2d 122 (1993) 3, 10, 11, 12, 14, 15, 24

New Kids On The Block v. News America Publishing, Inc., 971 F.2d 302 (9th Cir. 1992) 25

Page Communications Engineers, Inc. v. Froehlke, 475 F.2d 994 (D.C. Cir. 1973) 17, 18

People ex. rel. Van De Kamp v. Tahoe Regional Planning Agency, 766 F.2d 1319, *modified on other grounds*, 775 F.2d 998 (9th Cir. 1985) 22

Pierce v. Underwood, 487 U.S. 552 (1988) 20

Pyrodyne Corp. v. Pyrotronics Corp., 847 F.2d 1398 (9th Cir.), *cert. denied*, 488 U.S. 968 (1988) 22

Thomas v. Sams, 734 F.2d 185 (5th Cir. 1984), *cert. denied*, 472 U.S. 1017 (1985) 6

Page

Statutes and Regulations

SUPREME COURT RULE 29.1 i

COPYRIGHT ACT, 17 U.S.C. §117 23

28 U.S.C.
§382 13
§1292(b) 8

FEDERAL RULES OF CIVIL PROCEDURE
52(b) 19
62(c) 21, 22
65(c) passim
65.1 9, 10

Other Authorities

Note, *Recovery For Wrongful Interlocutory Injunctions Under Rule* 65(c), 99 HARV. L. REV. 828 (1986) 16

H.R. REP. NO. 612, 62d Cong., 2d Sess. 26 (1912) 14

No. 93-2035

In the Supreme Court
OF THE
United States

OCTOBER TERM 1993

NINTENDO OF AMERICA, INC.,
Petitioner,

v.

LEWIS GALOOB TOYS, INC.,
Respondent.

Petition For A Writ Of Certiorari
To The United States Court Of Appeals
For The Ninth Circuit

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

STATEMENT OF THE CASE

In the late 1980s and early 1990s, Nintendo made and successfully sold over 30 million video game machines to American consumers. Nintendo sold master game consoles, related software, and a variety of separately sold accessory products. In mid-1990, Galoob announced and displayed a new Nintendo-compatible accessory called the Game Genie. Within a few weeks, the video game magazines labelled the

Game Genie "the accessory of the year" and Galoob received 550,000 initial orders from retailers with promises of many more as Christmas approached. Nintendo sued, claiming copyright infringement, and sought and received a preliminary injunction which entirely prevented Galoob from manufacturing, marketing, and selling the Game Genie, or fulfilling any of its existing orders for the product.

As a result, Nintendo—for more than twelve months—enjoyed sales of its own video game accessories without competition from the Game Genie. By contrast, Galoob was left with a frozen inventory, an impaired reputation, and a layoff of valued employees. As required by Federal Rule of Civil Procedure 65(c), Nintendo posted security of $15 million to protect Galoob against losses sustained as a result of wrongful injunction.

After an expedited two-week trial on the merits, the District Court found that the Game Genie did not infringe Nintendo's copyrights. The Ninth Circuit Court of Appeals affirmed that judgment and this Court denied Nintendo's first Petition for Writ of Certiorari. After completion of extensive damage discovery and another trial in December 1991, the District Court found that Galoob had been wrongfully enjoined and found that Galoob had been damaged well in excess of the $15 million security in lost sales, interest, and miscellaneous manufacturing costs incurred as a result of the wrongful injunction. The District Court awarded $15 million to Galoob and, again, the Ninth Circuit Court of Appeals affirmed the judgment expressly adopting the prevailing standard of a rebuttable presumption in favor of bond execution.

Only by ignoring the express holding of the Ninth Circuit can Nintendo claim a four-way split among the Courts of Appeals in seeking review by this Court of what is in fact a completely straightforward judgment. Nintendo's Petition rests upon a material misstatement of the Ninth Circuit's decision. In fact, the Ninth Circuit did not create a new standard, but rather expressly followed the majority rule articulated by the District of Columbia and

Seventh Circuits in *National Kidney Patients Ass'n v. Sullivan*, 958 F.2d 1127, 1134 (D.C. Cir. 1992), *cert. denied*, 122 L. Ed. 2d 122 (1993) and *Coyne-Delany Co. v. Capital Development Board*, 717 F.2d 385, 391-92 (7th Cir. 1983):

> "This brings us to the next question: Is Galoob entitled to have the bond executed in its favor? Although there seems to be some variance in how other circuits respond to this question, *we join what appears to be the majority and hold there is a rebuttable presumption that a wrongfully enjoined party is entitled to have the bond executed and recover provable damages up to the amount of the bond*. . . . [T]his standard provides an equitable means by which courts can decline to impose damages on the rare party who has lost a case on the merits but nevertheless should not suffer the execution of the preliminary injunction bond." (*Lewis Galoob Toys, Inc. v. Nintendo of America, Inc.*, 16 F.3d 1032, 1036-37 (9th Cir. 1994) ("*Galoob II*") (Pet. App. A-12-13) (citations omitted) (emphasis added))

At bottom, Nintendo seeks review of the Ninth Circuit's *application* of that standard to the particular facts of this case. The question of whether the Ninth Circuit's balancing of the equities was an abuse of discretion does not merit review in this Court. This Court should deny the Petition and thus end Nintendo's legal campaign against a much smaller competitor, giving Galoob finality for a judgment of $15 million in lost profits that the District Court found will only partially compensate it for the harm it suffered as a result of the entry of the preliminary injunction.

A. Statement Of Facts.[2]

Nintendo entered the U.S. home video game market in 1986 when it introduced the "Nintendo Entertainment System" ("NES"). The NES consists of a dedicated computer housed in a "control deck," one or more video game cartridges that are inserted into the control deck during play of a game, and a player-held device for directing the motion of the game characters (a "controller"). CR 289 at 6. After introduction of the NES, Nintendo and a variety of software companies under license from Nintendo began to market games that were compatible with the NES. *Id.* at 7. In addition, a wide variety of different accessories, including controllers, were made and sold by Nintendo, its licensees, and independent companies for use with NES games. *Id.* at 7-8. Nintendo's commercially successful controllers included the "Advantage," one of a number of "joysticks" sold for the NES, and the "Max," an upscale "joypad," introduced in 1987 and 1988, respectively. CR 427 at 13.

In May 1990 Galoob announced a new accessory for the NES, called "Game Genie." In its opinion affirming the judgment that Galoob did not infringe Nintendo's copyrighted audiovisual works, the lower court described Game Genie as follows:

> "The Game Genie . . . allows the player to alter up to three features of a Nintendo game. For example, the Game Genie can increase the number of lives of the player's character, increase the speed at which the character moves, and allow the character to float above obstacles. The player

---

[2]Nintendo has omitted any significant discussion of the judgment in Galoob's favor which resulted in the finding of wrongful preliminary injunction or the judgment that it suffered in excess of $15 million in damages; further, Nintendo has in some instances misdescribed the order of proceedings in the lower court beyond recognition. For these reasons, Galoob presents its own summary of the pertinent facts and proceedings below.

> controls the changes made by the Game Genie by entering codes provided by the Game Genie Programming Manual and Code Book. The player can also experiment with variations of these codes." (*Lewis Galoob Toys, Inc. v. Nintendo of America, Inc.*, 964 F.2d 965, 967 (9th Cir. 1992), *cert. denied*, 123 L. Ed. 2d 149 (1993) ("*Galoob I*") (Pet. App. A-22))

The Game Genie allows a player to alter the rules of the game, to increase or decrease the difficulty of and modify game play, in ways never before possible. The Game Genie is an ingenious and flexible device, which gives players unparalleled control over the play of their games. The Game Genie was kept from the market for more than a year—including a crucial holiday season—by Nintendo's preliminary injunction.

To assess the impact of the preliminary injunction on Game Genie sales, the District Court was required to compare the state of the market for NES-related products in June 1990 (when Galoob was preliminarily enjoined from the manufacturing, marketing, and sale of the Game Genie) with the market in August of 1991 (when the device finally went on sale). The evidence presented to the trial court demonstrated that, beginning in mid-1991, consumer tastes shifted away from the NES and related products in favor of the 16-bit systems produced by Nintendo and its chief competitor at the time, Sega of America, Inc. GD 144 at 12-13; GD 145 at 13-16. This shift in consumer preferences resulted in a market environment far less hospitable to the Game Genie; and, as the District Court found, this resulted in lost sales in excess of 1.6 million units and lost profits in excess of $15 million. CR 509 ¶6. Because Galoob's damages were limited to the amount of the $15 million security, Galoob was unable to recover from Nintendo the entire amount of its losses suffered as a result of the wrongful injunction.

B. Summary Of Proceedings Below.

In May 1990, after receiving a cease and desist letter from Nintendo, Galoob filed suit for declaratory relief that it did not infringe Nintendo's copyrights. Nintendo responded by filing a completely new lawsuit on June 1, 1990. Nintendo unsuccessfully moved for a temporary restraining order, but received an order to show cause for a hearing on a preliminary injunction, on shortened notice, on June 29, 1990. The District Court granted the preliminary injunction, which was entered on July 2, 1990 and set forth a security requirement of only $100,000.[3] That preliminary injunction—which was wholly rejected after trial and upon appeal to the Ninth Circuit—kept an extremely promising product off the shelves for more than a year, a year which turned out to be the height of the market for the Game Genie.

---

[3]Nintendo makes a number of references (Pet. at 5, 17) to a purported "admission" by counsel at the preliminary injunction hearing that Game Genie created a derivative work. These references should be ignored for several reasons. First, it is clear from an examination in the context of the entire record of that hearing that prior counsel did not admit that Game Genie created derivative works. *See* CR 4 at 21-24 (opposition brief arguing that Game Genie did not create derivative works); CR 49 (C-90-1586) at 15:14-25, 16:5-6, 18:12-22, 19:15-21 (numerous statements that Game Genie did not create a derivative work). Second, these references are particularly surprising, since Nintendo properly conceded at the liability trial that these comments had no binding effect. *See* CR 244 at 35; *Thomas v. Sams*, 734 F.2d 185, 192 n.15 (5th Cir. 1984), *cert. denied*, 472 U.S. 1017 (1985); *Harrison Constr. Co. v. Ohio Turnpike Comm'n*, 316 F.2d 174, 177 (6th Cir. 1963). In any event, this has no conceivable relevance to the equitable consideration of the lower courts in connection with the execution of the preliminary injunction security, since any possible impression that Galoob intended to concede the issue of whether Game Genie created derivative works was corrected not only at that hearing, but even more forcefully just a few weeks later in the appeal from the preliminary injunction. Nintendo simply cannot demonstrate (and, indeed, has not even argued) that it reasonably relied in any manner upon such a statement (nor could Nintendo justifiably rely upon the statement of opposing counsel, a clear adversary) in posting security, and it is therefore completely irrelevant.

Faced with economic catastrophe from the preliminary injunction, Galoob, on the next day, July 3, 1990, noticed an expedited interlocutory appeal from the preliminary injunction, and filed a comprehensive opening brief in the Ninth Circuit by August 10—only slightly more than a month after the preliminary injunction had been entered. *At the time that brief was filed on August 10, by new counsel retained by Galoob, Nintendo became fully aware of each and every legal theory that was later litigated by Galoob at the trial on the merits of the copyright infringement claims.* About a month after lodging the appeal, Galoob moved to increase the security for the injunction from the $100,000 originally set by the District Court to $9.1 million covering the anticipated lost profits for 1990. CR 57. The District Court ordered the bond increased to $5 million, its estimate of the profits lost on the 550,000 orders which had already been cancelled. *Id.* at 15, 60. The District Court declined at that time to increase the bond to cover additional lost sales for 1990 or 1991, but invited Galoob to renew its motion in the new year if the injunction was still in effect. *Id.* at 15. *Nintendo chose to post the additional security and maintain the preliminary injunction knowing full well all of Galoob's defenses to its claim of infringement.*[4]

---

[4]Nintendo's description of the order of proceedings is more than a little inaccurate; indeed, the most striking misstatement of the proceedings bears some notation here so that the Court will not be confused as to the record. Nintendo states:

> "Despite this rejection [by the Ninth Circuit on the appeal from the preliminary injunction], Galoob did not move in the district court to modify or dissolve the preliminary injunction and thereby obtain the findings of fact essential to its new defenses. Instead, while the action was proceeding toward trial, Galoob simply filed a series of motions to increase the preliminary injunction bond which Nintendo had posted pursuant to Fed. R. Civ. P. 65(c)." (Pet. at 7)

The events in the trial court simply did not happen in the above-quoted sequence. Rather, Galoob moved twice to increase the security *before* the Ninth Circuit ruling on the interlocutory appeal from the preliminary injunction. CR 147 at 2 (September 1990); CR 71 (December 20, 1990,

(continued...)

In December 1990, with a decision still awaited from the Court of Appeals, Galoob renewed its motion to increase the bond to $18-20 million to cover lost sales beyond the initial lost orders. CR 71. That sum covered the estimated lost profits through June 1991, when a decision on the merits in the trial court was expected. *Id.* On January 24, 1991, the Court of Appeals rejected Galoob's interlocutory appeal, finding only that the District Court had not abused its discretion in entering the preliminary injunction, and declining to reach the merits of any of the infringement issues. Pet. App. A-68-74. The District Court granted Galoob's second motion to increase security on March 27, 1991, and ordered Nintendo to increase security to $15 million if it wished to maintain the injunction. CR 147. Voicing some concern in its Order over the lack of judicial precedent to guide trial courts in setting the amount of injunction bonds, the court *sua sponte* certified the issue for immediate appeal pursuant to 28 U.S.C. §1292(b). *Id.* at 10. *Two days later, with trial less than a month away, Nintendo posted the additional security, opting to maintain the preliminary injunction though it was fully aware of all of Galoob's arguments against infringement, and opting not to appeal.* In December 1990, Galoob requested that Nintendo stipulate to modify the injunction to permit it to manufacture (but not sell) Game Genies, in the event that the preliminary injunction was eventually overturned. Galoob expressly acknowledged in making the request that it would bear the financial risk of this strategy. Nintendo refused this entirely reasonable request. Exs. GD 67, 68.

---

[4](...continued)
refiled January 15, 1991); *see* CR 89. Moreover, as set forth at length in the text, only three months passed between the Court of Appeals' ruling on the appeal from the preliminary injunction and the *trial* on the merits of the liability case. CR 147, Pet. App. A-68. Indeed, at Galoob's request and over Nintendo's objection, the trial was scheduled and held on an expedited schedule in April 1991, less than a year after Nintendo filed suit. CR 57 at 24, 27; *see* CR 244.

After a two-week trial in late April and early May 1991, on July 12, 1991, the District Court rendered a decision on the merits of Nintendo's copyright claim in favor of Galoob, and vacated the injunction. The District Court also held that injunctive relief would not have been warranted even if there had been infringement, as Nintendo had failed to demonstrate any irreparable harm.[5] CR 289 at 38. A year later, both of the grounds for the holding of noninfringement—that the Game Genie does not create derivative works and that use of the Game Genie is a fair use—were unanimously affirmed by the Court of Appeals and review was denied by this Court. During this period Nintendo filed a motion urging the District Court to exonerate the bond because of Galoob's alleged failure to mitigate. The District Court rejected Nintendo's allegation, ordering execution on the security in "an amount to be determined." CR 317.

Throughout the fall of 1991 the parties conducted extensive discovery. The damages trial (a summary proceeding pursuant to Rule 65.1 of the Federal Rules of Civil Procedure) was held from December 12-19, 1991. Meanwhile, on May 21, 1992, the Court of Appeals affirmed the liability judgment and issued an amended opinion on August 5, 1992. Pet. App. A-20-35. On July 6, 1992, the District Court issued its finding that Galoob had lost 1.6 million unit sales of the Game Genie as a result of the preliminary injunction. CR 509 at 2. Based on its further findings as to net profits per unit, lost interest, and additional costs incurred as a result of the injunction, the District Court found that Galoob had lost *at least* $15 million. CR 509 ¶¶6, 12, 15, 16.[6] Accordingly, the District

---

[5]The Court found that, if anything, the Game Genie would *enhance* sales of NES systems and software. CR 289 at 30, 32, 38.

[6]The District Court found it unnecessary to resolve several remaining disputes between the parties concerning the calculation of damages, noting that in any event, Galoob could not recover in excess of the posted security. CR 509, ¶6. Thus, it is clear that Galoob was damaged well in excess of $15 million.

Court entered judgment awarding Galoob the $15 million security. That judgment was affirmed by the Court of Appeals on February 17, 1994 (Pet. App. A-1-18), a timely Petition for Rehearing and Suggestion for Rehearing En Banc was rejected, (Pet. App. A-19) and that judgment is now the subject of this Petition.

REASONS FOR DENYING THE WRIT

Federal Rule of Civil Procedure 65(c) contains a mandatory requirement for posting of security in case of damages sustained by wrongful injunction:

> "**(c) Security.** No restraining order or preliminary injunction *shall* issue except upon the giving of security by the applicant, in such sum as the court deems proper, for the payment of such costs and damages as may be incurred or suffered by any party who is found to have been wrongfully enjoined or restrained. No such security shall be required of the United States or an officer thereof.
>
> "The provisions of Rule 65.1 apply to a surety upon a bond or undertaking under this rule." (Emphasis added)

The security provides a ceiling for recovery of damages by wrongfully enjoined defendants. *Buddy Systems, Inc. v. Exer-Genie*, 545 F.2d 1164, 1168 (9th Cir. 1976), *cert. denied*, 431 U.S. 903 (1977). In determining to execute the injunction security here in favor of Galoob, the Court of Appeals adopted the majority standard of a rebuttable presumption of execution in favor of wrongfully enjoined defendants. Both of the courts below rejected Nintendo's argument that it had demonstrated equitable reasons to avoid enforcement by the wrongfully enjoined and seriously injured Galoob. There is no good reason for this Court to disturb or review that judgment.

The Ninth Circuit followed the majority rule articulated by the District of Columbia in *National Kidney Patients Ass'n*

v. Sullivan, 958 F.2d 1127, 1134 (D.C. Cir. 1992), *cert. denied*, 122 L. Ed. 2d 122 (1993) ("defendant injured by a wrongfully issued preliminary injunction is presumptively entitled to recovery on the injunction bond") and the Seventh Circuit in *Coyne-Delany Co. v. Capital Development Board*, 717 F.2d 385, 392 (7th Cir. 1983) ("principle of preference" in favor of bond enforcement). Contrary to Nintendo, the Ninth Circuit has not articulated a new standard which focuses solely on defendant's good faith, thereby creating a "four-way split" among the Circuits. By its own express holding, the Court of Appeals applied the majority rebuttable presumption standard, and that standard is supported by law and common sense. *See* Section A, *infra*.

In applying the rebuttable presumption standard, the Ninth Circuit did not limit itself to consideration of Galoob's "bad faith," but expressly considered all equitable factors urged upon it by Nintendo. *See* Section B, *infra*. The courts below properly rejected Nintendo's arguments that Galoob "failed to mitigate" its damages, or that Galoob worked a "change of law." To find otherwise, this Court would have to violate the well-established principle that the concurrent factual findings of the District Court and the Court of Appeals should not be disturbed. The Petition provides no reason why this Court should re-examine those factual findings, which in any case were plainly correct and in all events not an abuse of discretion. Moreover, given the record and the findings below, any question regarding the appropriate standard becomes wholly irrelevant to the outcome of this case since Nintendo would not prevail under *any* conceivable standard for execution on the security. *See* Section C, *infra*.

For these reasons, this Court's review of the Ninth Circuit's judgment that Galoob was entitled to execute the security is not only unnecessary, but inappropriate on the record presented in this case. This Court should end this lengthy litigation by denying the Petition.

A. The Rebuttable Presumption Standard Employed By The Ninth Circuit Is Supported By The Text, Legislative History And Policy Of Rule 65(c).

Nintendo's characterization of the holding of the Court of Appeals as tantamount to a strict liability standard is in direct conflict with the express holding in that court's opinion. Nintendo argues that the Ninth Circuit ignored the full range of equitable factors and looked solely to Galoob's good faith, or lack thereof, thereby applying a "narrow and restrictive" standard that should be reviewed by this Court. Nintendo's argument in this regard is completely unsupported by the record. To the contrary, as quoted at length above, the Court of Appeals expressly employed the majority standard of a rebuttable presumption in favor of execution that can be overcome on a showing of equitable reasons against enforcement. It cited the District of Columbia Circuit's opinion in *National Kidney* and the Seventh Circuit's opinion in *Coyne-Delany* as setting forth the "majority" rule it adopted—decisions which Nintendo correctly describes in its Petition as authorizing "consider[ation of] a range of equitable factors." Pet. at 12. Indeed, the Ninth Circuit articulated numerous sound reasons in support of the D.C.-Seventh Circuit standard.

> "We believe this rule is sound. By adhering to this standard, the party enjoined will usually recover damages, thus discouraging parties from requesting injunctions based on tenuous legal grounds. Furthermore, a presumption that damages will be awarded from the bond assures district court judges that defendants will receive compensation for their damages in cases where it is later determined that a party was wrongfully enjoined. Moreover, demands on judicial resources may be relieved to some extent, because a defendant who can recover damages against a preliminary injunction bond will be less likely to file a separate malicious prosecution action. Finally, this standard provides an equitable means

> by which courts can decline to impose damages on the rare party who has lost a case on the merits but nevertheless should not suffer the execution of the preliminary injunction bond." (*Galoob II*, 16 F.3d at 1037 (Pet. App. A-12-13) (citations omitted))

See also Alabama ex rel. Siegelman v. United States EPA, 925 F.2d 385, 391 (11th Cir. 1991) (holding that denial of enforcement of security requires an objectively good reason). In short, the Ninth Circuit explicitly adopted the D.C.-Seventh Circuit standard, and did not create a different standard of its own.[7]

Nintendo does not appear to challenge the Ninth-Seventh-D.C. Circuit standard. A standard permitting any greater discretion in the determination whether to enforce a preliminary injunction security would be inconsistent with the mandatory security requirement of Rule 65(c). Except for the last sentence (not relevant here), Rule 65(c) was adopted verbatim from former 28 U.S.C. §382 (repealed 1948) providing for security for injunctive relief. FED. R. CIV. P. 65(c) advisory committee's note (1937 adoption). Section 382 was originally enacted as part of the Clayton Act and pertained only to antitrust injunctions; later, it was made part of the Judiciary Act and applicable to all preliminary injunctive relief. The history of the provision that later became Section 382 demonstrates that it was adopted in order to *limit* discretion in matters of security for injunctive relief:

---

[7]Nintendo's contention that the Court of Appeals refused to consider or correctly apply some of the equitable grounds that it had urged is at most an argument that the court below *misapplied* the very standard that it had adopted, not proof that it (silently) applied a different standard than the one it expressly embraced. In any event, as shown in the next section, Nintendo is wrong about that as well: the Ninth Circuit fully considered and addressed all of Nintendo's equitable arguments—and, for good reason, rejected them.

> "[The section] simply *requires* security for costs and damages in all cases, *leaving it no longer within the discretion of the courts whether any such security or none shall be given.*.
>
> "Prior to the said act of 1872 . . . there appears to have been no legislation on the matter of security in injunction cases; but that security was usually required is a fact well known to the legal profession. It seems clearly just and salutary that the extraordinary writ of injunction should not issue in any case until the party seeking it and for whose benefit it issues has provided the other party with all the protection which security for damages affords.
>
> "It appears by the authorities, both English and American, to have been always within the range of judicial discretion, in the absence of a statute, to waive security, though better practice has been to require security as a condition to issuing restraining orders and injunctions.
>
> "The new section . . . *takes the matter of requiring security out of the category of discretionary matters* . . . ." (H.R. REP. NO. 612, 62d Cong., 2d Sess. 26 (1912)(emphases added))

Thus, Rule 65(c) is mandatory because preliminary injunctive relief is a drastic measure, not a right, and may be obtained without a full and fair opportunity to develop all relevant facts and legal theories. While Congress did not expressly address itself to the standard to be applied to a motion to enforce the mandatory security, it seems obvious that in order to implement properly the policy that it did adopt, that standard must likewise limit courts' discretion to deny enforcement of the security that Rule 65(c) *required* be posted in the first instance. *See National Kidney*, 958 F.2d at 1134 ("[T]his approach is virtually required by the text of Rule 65(c). Although the Rule does not explicitly address the disposition of the bond once the injunction is found

wrongful, payment to the injured defendant seems almost inescapable, since the Rule imposes a requirement of security . . ."). Congress understood the financial consequences to both parties of preliminary injunctive relief, and balanced those risks by requiring security from plaintiffs and limiting their liability in the amount of that security. A standard of limited discretion to deny enforcement of a preliminary injunction security on equitable grounds is therefore the least restrictive standard consistent with the mandatory requirement of Rule 65(c).

There are also serious practical reasons why a standard of limited discretion to deny enforcement on equitable grounds is appropriate. A bond enforcement proceeding should not be converted into a trial on the quality of defendant's presentation at the hearing on the preliminary injunction. Such hearings are typically held on minimum notice, discovery is limited or non-existent, hearing time is limited, and trial courts impose strict page limits on the briefing on such motions. Examination by the courts of the arguments made in defending such motions in determining whether to execute injunction security would result in a wholesale invasion of attorney-client privilege, work product, and would inevitably enmesh the courts in burdensome and unnecessary collateral inquiries. As between the plaintiff which temporarily obtains unwarranted preliminary relief and the defendant which was unable to ferret out all of the flaws in plaintiff's claim for injunctive relief in time to forestall an improvident injunction, Rule 65(c) places responsibility on the plaintiff up to the face amount of the bond.[8]

---

[8]Nintendo makes much (Pet. at 4-5, 17) of Galoob's retention of a "well-known intellectual property law firm" to advise it regarding the Game Genie, and Galoob's decision to approach Nintendo to discuss a license in an effort to avoid suit. The fact that Galoob sought and received a legal opinion before deciding to manufacture the Game Genie is unremarkable and demonstrates only Galoob's good faith. Galoob's effort to avoid suit by engaging in early, albeit unsuccessful, discussions

(continued...)

B. The Ninth Circuit Did Not Limit Itself To Consideration Of Galoob's "Bad Faith"; Rather, It Expressly Considered The Equitable Factors Urged Upon It By Nintendo.

Nintendo argues that two equitable factors—"failure to mitigate" and "change of law"—were relevant to the determination of whether the security should have been executed and were not considered by the Ninth Circuit. This argument is unsupported by the record—which clearly reveals that the Ninth Circuit did consider these arguments. As Nintendo advanced its equitable arguments below and in the trial court, however, both of these so-called arguments relied upon the same factual premise: that Galoob's alleged withholding of arguments at the preliminary injunction worked some unfairness to Nintendo. Nintendo argues that Galoob "failed to mitigate" by failing to come back to the District Court a second time with a motion to modify or dissolve the preliminary injunction prior to trial.[9]

---

[8](...continued)
with Nintendo is hardly an equitable reason for denying enforcement of the injunction bond.

[9]Nintendo's argument labeled "failure to mitigate" may sound appealing in the abstract but in fact it has absolutely no application to the facts of this case. Failure to mitigate is a doctrine to be considered not upon a liability determination, but later, in the determination of the *amount* of damages:

> "[A] defendant's failure to mitigate damages should not constitute grounds for exercising discretion to deny the defendant recovery of all damages. The court should consider a defendant's failure to mitigate damages when determining how much compensation the defendant should receive for his injuries; the court should allow the defendant the amount normally allowed under the common law doctrine of mitigation of damages." (Note, *Recovery for Wrongful Interlocutory Injunctions Under Rule* 65(c), 99 HARV. L. REV. 828, 845 (1986)(footnote omitted))

Nintendo did argue below that Galoob failed to avoid incurring some portion of its damages by failing to avoid the loss of some number of
(continued...)

In support of its equitable arguments, Nintendo specifically relies here, as it did below, upon the decision in *Page Communications Engineers, Inc. v. Froehlke*, 475 F.2d 994 (D.C. Cir. 1973). In excusing the plaintiff from its security obligation, the court in that case primarily relied upon the failure by the defendant to timely file an important piece of evidence, a fact which Nintendo heavily analogizes here. *Page Communications*, 475 F.2d at 997; Pet. at 14-15, 20. However, as the Ninth Circuit held, no comparable conduct occurred in this case. In *Page Communications*, the defendant had the information later determined important by the court at its disposal and failed to produce it despite the fact that it had agreed to do so in open court. 475 F.2d at 996. Thus, the holding in *Page* was not "[i]rrespective of whether that omission was accidental or intentional" (Pet. at 20); rather, there was clear evidence of intentional misconduct. As the Ninth Circuit explained:

> "*Page Communications* is inapposite. There, the court declined to award damages to an enjoined defendant in a contract action. The defendant earlier agreed to produce 'all "records relating to the evaluation of proposals submitted" by the various offerors, and all "documents setting forth the basis for the award."' Although this language described a particular report the defendant possessed, the defendant intentionally declined to produce the report. In granting the injunction for the plaintiff, the district court believed erroneously it had examined all the relevant evidence. Because the defendant was responsible for the missing evidence, and because the district court would probably not have granted the injunction had it seen the report, the court concluded that in light of

---

[9](...continued)
sales of the Game Genie but that argument was rejected by the District Court. CR 485 at 219-20. No question relating to the amount of damages has been raised in the Petition.

these circumstances, it would be inequitable to assess damages against the plaintiff.

"Here, Galoob did not fail to produce evidence. It did not deceive the court. There is no indication in the record that Galoob sandbagged Nintendo into prevailing upon its application for the preliminary injunction, knowing all the while that it could have defeated that application. Those facts are simply not this case. All that appears is that Galoob had additional defenses it asserted at the time of trial, defenses it had not asserted at the preliminary injunction hearing. And while it is true that Galoob persuaded the court on two successive occasions to increase the amount of the bond, thus raising the stakes of the game, it is also true that Nintendo called these raises by putting up additional amounts of the bond. We conclude Galoob's litigation conduct does not preclude it from recovering on the bond." (*Galoob II*, 16 F.3d at 1037-38 (citations omitted) (Pet. App. A-14-15))

Thus, Nintendo's argument that the Ninth Circuit failed to consider the equitable factors urged upon it cannot be sustained. In fact, as is apparent from the opinion, the Court of Appeals clearly considered and rejected the argument that Galoob withheld defenses; it just did not choose to use Nintendo's labels of "failure to mitigate" and "change of law" in its analysis. The fact that the court characterized Nintendo's argument as one regarding Galoob's good faith does not vitiate the court's careful consideration of the *facts* which Nintendo argued equitably entitled it to avoid execution of the security.

C. Nintendo's Argument That Galoob Is Equitably Barred From Enforcing The Bond Because It Did Not Seek Reconsideration Of The Preliminary Injunction Improperly Seeks Review Of The Lower Courts' Exercise Of Discretion And In No Event Raises An Issue Worthy Of Review By This Court.

Nintendo insists that the Court of Appeals misapplied the equitable standard it purported to adopt when it rejected Nintendo's equitable arguments. It argues that Galoob was required to, and did not, seek reconsideration of the preliminary injunction after its new counsel identified defenses not presented to the District Court at the time of the preliminary injunction hearing. In effect, Nintendo claims that a preliminarily enjoined defendant must return to the District Court for reconsideration of that injunction each and every time it develops a new factual or legal defense or face non-enforceability of the injunction bond.

Nintendo's argument raises a highly fact-specific question of equitable balancing. Both the District Court and the Court of Appeals rejected Nintendo's requests for a finding that Galoob's litigation conduct resulted in some unfairness to Nintendo.[10] The rejection of Nintendo's argument that it was equitably entitled to avoid enforcement of the security on this ground was entirely correct, and should not be disturbed by this Court.

---

[10]In denying Nintendo's motion for exoneration, the trial court *a fortiori* rejected Nintendo's arguments that it was equitably entitled to avoid enforcement of the security. CR 314; CR 317. This implied finding is entitled to the same deference on appeal as is the express finding of the Court of Appeals in that regard. Moreover, to the extent that the trial court's findings lack specificity on this point, Nintendo bears the burden of that lack of specificity, since it neither proposed more specific findings nor moved to amend the ones that were ultimately adopted, as authorized by Federal Rule of Civil Procedure 52(b). *Lindquist v. Idaho State of Bd. of Corrections*, 776 F.2d 851, 857 (9th Cir. 1985) ("Certainly, a party who does not provide the trial court with suggested amended or alternative findings on the issue to be reviewed on appeal is not in a favorable position to complain about their incompleteness").

Granting certiorari to review the lower courts' determination that Galoob's litigation conduct was not unfair to Nintendo would require disregard of the principle that this Court should not disturb the concurrent findings of the lower courts. *International Brotherhood of Electrical Workers v. Foust*, 442 U.S. 42, 46 n.7 (1979) (finding that conduct at worst amounted to negligence could not be made in derivation of two-court rule); *Graver Tank & Mfg Co. v. Linde Air Prods. Co.*, 336 U.S. 271, 274 (1949), *adhered to in part, rev'd in part on other grounds*, 339 U.S. 605 (1950). There is nothing in the Petition that would warrant a departure from this principle or compel review of a decision that, in the particular facts of this case, Galoob's presentation of its defenses was not inequitable or unfair to Nintendo.

In any event, the issue of whether the courts below correctly applied the Ninth-Seventh-D.C. Circuit standard to the facts of this case is one which must be reviewed under the "abuse of discretion" standard. *See Pierce v. Underwood*, 487 U.S. 552, 558 (1988). The findings below are anything but an abuse of discretion.

In the first place, there simply was no unfairness to Nintendo. The legal defenses upon which Galoob ultimately prevailed at trial and in the Court of Appeals in defeating Nintendo's copyright infringement claim were raised by Galoob and tendered to Nintendo just *six weeks* after entry of the preliminary injunction in a brief seeking reversal of that injunction. Brief of Appellant, No. 90-15936 (9th Cir. August 13, 1990). If Nintendo had second thoughts about the strength of its infringement claim, it could have withdrawn the preliminary injunction or, at the very least, joined in Galoob's request that the Court of Appeals reach those defenses on appeal from the preliminary injunction. Instead, Nintendo persuaded the Court of Appeals that those defenses had not been sufficiently raised before the District Court and that the Court of Appeals should exercise its discretion to refuse to

consider them. As a result, the preliminary injunction remained in force.

More important, it was only *after* Galoob's defenses had been presented (and fully briefed) to the Court of Appeals on August 10, 1990 that Galoob sought increases of the preliminary injunction security. *Id.*; CR 147 at 2. Those motions resulted in two orders increasing the security first to $5 million and then to $15 million. At each of those points in the proceedings, Nintendo could have decided that Galoob's defenses created too great a risk, declined to post the additional security, and pursued its claim for damages. Instead, in each instance it posted the additional bond within two days of the orders, thereby keeping the preliminary injunction in force. There is nothing inequitable about enforcing the $15 million security posted by Nintendo long after it had been presented with a full briefing by Galoob of *all* of its defenses to the infringement claim.[11]

Moreover, it was not possible for Galoob to seek modification or vacation of the injunction, since the Court of Appeals was vested with jurisdiction over the request for preliminary injunctive relief until just a few months prior to trial.[12] Furthermore, Galoob informally requested that

---

[11]For this reason, among others, Nintendo's "change of law" argument merits little response. The change of law contemplated by the court in *Coyne-Delany* was a change in the Rule of an intermediate state appellate court relied upon by the trial court in that case in granting the preliminary injunction. 717 F.2d at 392. A drastic change in law by an outside actor is far different from the circumstances presented here, where additional legal theories were developed during the full presentation of the case. There simply is no support for calling changes in a party's advocacy as a case develops and discovery proceeds a change of law sufficient to warrant denial of execution on an injunction security. Indeed, such a rule would severely prejudice defendants' ability to employ the range of defenses available to them and is particularly inappropriate here where Nintendo was always fully aware of the so-called "change of law" in posting its security.

[12]Under Federal Rule of Civil Procedure 62(c),

(continued...)

Nintendo allow it to modify the injunction in order to mitigate the damage that was sure to result, and Nintendo steadfastly refused. *See* Exs. GD-67, 68. In any event, the notion that—as a condition of bond enforcement—the defendant is bound to seek reconsideration of the preliminary injunction whenever it identifies a new factual or legal defense is completely unsupported by any case authority and is preposterous. Such a rule would result in endless motions to modify preliminary injunctions in already overburdened district courts.

The facts of this case provide a good illustration of why such a requirement would be imprudent. In order to enforce the preliminary injunction security here, Nintendo could have had Galoob forego its right to appeal so that the District Court could retain jurisdiction over the preliminary injunction in case Galoob discovered different factual and legal theories which might provide a basis for vacating of the preliminary injunction.[13] There is simply no support

---

[12](...continued)

> "the [district] court in its discretion may suspend, modify, restore, or grant an injunction during the pendency of the appeal upon such terms as to bond or otherwise as it considers proper for the security of the rights of the adverse party."

Such action is allowed only to preserve the status quo pending appeal. *McClatchy Newspapers v. Central Valley Typographical Union No. 46*, 686 F.2d 731, 734-35 (9th Cir.), *cert. denied*, 459 U.S. 1071 (1982). In *People ex. rel. Van De Kamp v. Tahoe Regional Planning Agency*, 766 F.2d 1319, 1322, *modified on other grounds*, 775 F.2d 998 (9th Cir. 1985), the court held that the "notice of appeal deprived the district court of jurisdiction to grant the requested modifications" to the preliminary injunction. Here, a motion to modify in the district court based on the new legal defenses certainly would have altered the status quo, and the district court therefore would not have had jurisdiction to entertain such a motion until the Court of Appeals ruled on January 24, 1991. *See also Pyrodyne Corp. v. Pyrotronics Corp.*, 847 F.2d 1398, 1403 (9th Cir.), *cert. denied*, 488 U.S. 968 (1988); *Christian Science Reading Room Jointly Maintained v. City & County of San Francisco*, 784 F.2d 1010, 1017, *modified on other grounds*, 792 F.2d 124 (9th Cir. 1986), *cert. denied*, 479 U.S. 1066 (1987).

[13]Moreover, while it is true that the particular *legal* defenses upon (continued...)

for that proposition; indeed, such a rule would essentially vitiate the right to take an immediate appeal from an order entering a preliminary injunction.

Even if Nintendo would not put Galoob to this Hobbesian choice, its argument that Galoob should have moved to modify in the District Court after the ruling on the interlocutory appeal must also be rejected. Such a motion could not possibly have been brought in this action in the short time between the ruling by the Court of Appeals affirming the preliminary injunction and the trial: indeed, such a motion would as a practical matter require an even earlier trial on the merits of the legal issues. Again, Nintendo would put Galoob to an untenable choice: that of foregoing its expedited trial in return for a motion to modify the preliminary injunction—a motion which could only be viewed by any District Court under similar circumstances as burdensome and abusive.

For all of these reasons, the lower courts' rejection of Nintendo's so-called "equitable factors" is consistent with any standard of discretion applicable to the determination of execution of security by a wrongfully enjoined

---

[13](...continued)
which Galoob prevailed on the merits were not presented at the hearing on the preliminary injunction, that is only part of the story. First, Galoob *did* argue at the preliminary injunction hearing that Nintendo had not satisfied the equitable criteria for a preliminary injunction and that there was an adequate remedy at law. CR 49 (C-90-1586) at 29-32. Thereafter, the district court held that even if Nintendo's claim for copyright infringement had been valid, it was not entitled to injunctive relief. CR 289 at 38 ("Assuming infringement, adequate remedies exist at law"; "a permanent injunction in favor of Nintendo would not be an appropriate remedy"). Second, Galoob's legal argument made at the preliminary injunction hearing that Section 117 of the Copyright Act authorized users to make the kind of adaptation possible with Game Genie was expressly not reached or decided at the trial on the merits. Thus, the entire premise underlying Nintendo's argument—that Galoob did not prevail at trial on any issue raised at the time of the preliminary injunction—is plainly incorrect.

defendant.[14] There is no reason for this Court to review the factual determinations made by the courts below.[15]

---

[14]Thus, whether other Circuits may permit the trial court greater discretion to deny enforcement of security (*e.g., H&R Block, Inc. v. McCaslin*, 541 F.2d 1098 (5th Cir. 1976), *cert. denied*, 430 U.S. 946 (1977)), or less (*e.g., Blumenthal v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 910 F.2d 1049, 1054 (2d Cir. 1990)) is simply irrelevant here, since on the record of this case, Galoob was entitled to execution under *any* conceivable standard.

[15]Preliminary injunctive relief is a drastic measure which deprives one party of a right without the benefit of a full hearing. In copyright cases preliminary injunctions are especially easy to obtain, because plaintiffs are not put to the burden of demonstrating irreparable harm: rather, as pointed out by Nintendo (Pet. at 25), such harm is normally presumed from a showing of likelihood of injury. While that presumption may be warranted in some instances, here it worked a particular injury, since the District Court ultimately found that there was no irreparable harm. That finding underscores an important point overlooked entirely by Nintendo: *a prevailing copyright plaintiff is entitled to a full panoply of remedies other than injunctive relief, including actual damages and the infringer's profits, or statutory damages, and attorney's fees.*

Furthermore, as both the District of Columbia Circuit and the Ninth Circuit have recognized, there is no cognizable general public interest against enforcement of preliminary injunction security. As noted in *National Kidney*, the mandatory security requirement of Rule 65(c) "expresses a judgment that already subsumes such generic policy considerations as the public interest in providing judicial interpretations of statutes" (958 F.2d at 1135) or, in this case, enforcement of the copyright law.

> "Nintendo's public policy argument is premised on its assertion that public policy favors the issuance of injunctions in intellectual property infringement lawsuits. This assertion is correct only when a *permanent* injunction is sought once infringement has been established. Public policy *does not advocate the liberal issuance of preliminary injunctions in copyright infringement actions.*" (*Galoob II*, 16 F.3d at 1038 (Pet. App. A-15) (citation omitted) (emphasis added))

Nor does public policy dictate a more liberal standard for issuance of preliminary injunctions in copyright cases than is reflected by the lower court's opinion. While there is certainly a strong interest in enforcement of intellectual property rights, there is an equally availing interest in not having the copyright law misused to cause the suppression of new

(continued...)

CONCLUSION

For each of the reasons set forth herein, the Petition should be denied.

DATED: August 17, 1994

Respectfully,

JEROME B. FALK, JR.
MARTIN R. GLICK*
ANNETTE L. HURST
HOWARD, RICE, NEMEROVSKI, CANADY, ROBERTSON, FALK & RABKIN
A Professional Corporation

Attorneys for Respondent Lewis Galoob Toys, Inc.

*Counsel of Record

---

[15](...continued)
products or ideas. *E.g., Galoob I*, 964 F.2d at 969 (Pet. App. A-27); *New Kids On The Block v. News America Pub., Inc.*, 971 F.2d 302, 308 n.6 (9th Cir. 1992). In order to serve that important policy, compensation must be readily accessible to defendants who are enjoined and found later not to be infringers.